Plantation

Inventories Edge Higher As Export Demand Remains Soft

OVERWEIGHT
(Maintained)

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Highlights

- MPOB's May 26 data showed a 5.2% rise in Malaysia's palm oil stockpiles at 2.43m tonnes, as the steeper-than-expected decline in exports outweighed a seasonal decline in output.
- Malaysia's B15 mandate provides a structural lift to domestic CPO absorption, while a weakening ringgit improves price competitiveness for Indian buyers - both supporting demand heading into the 2H seasonal production peak.
- Maintain OVERWEIGHT. Sector picks: SD Guthrie (BUY/Target: RM6.90) and Hap Seng Plantations (BUY/Target: RM2.47).

Analysis

- **MPOB's May 26 data: Bearish on soft exports**. Palm oil inventory rose to 2.43m tonnes (+5.2% mom), recording a second straight monthly build, driven by the soft export which outpaced the slight decline in production.
  - **Production** fell 7% mom to 1.52m tonnes. This falls within our survey range of -6% to -10%, a seasonal pullback after the surge in April. OER came in at 20.1% (mom: -0.38pp; yoy: +0.22pp) in May 26, which tells us the production decline was driven entirely by lower FFB crop load rather than any deterioration in mill extraction efficiency. By region, Peninsular Malaysia (-8.1% mom) and Sabah (-9.4% mom) landed within our survey expectations, while Sarawak held up better than expected at -2.0% mom.
  - **Exports** fell 14.5% mom to 1.11m tonnes. This is at the soft end of cargo surveyor expectations of an 8.8-15.5% monthly decline. Outgoing CPO shipments slowed its pace towards the end of the month amid Eid al-Adha celebrations, a persistently strong ringgit and CPO's relatively weak price competitiveness against soybean oil.
  - **Imports** slumped 42.2% mom to 43,816 tonnes, tempering the stock build. The stock build is skewed towards processed palm oil (+9.5% mom vs CPO's +1.6% mom) and is primarily concentrated in Sabah (+47.1% mom), suggesting weak refined-product offtake within the state.
- **Outlook.** Production should accelerate starting from June into the September–October seasonal peak, making exports the primary swing factor for inventory. Two demand catalysts are converging to support the near-term CPO outlook. First, Malaysia's B15 biodiesel mandate took effect on 1 June, and the elevated 2.43m-tonne stock level is the pre-mandate baseline from which domestic biodiesel absorption should begin drawing down inventory. Second, a weakening Malaysian ringgit should lower the landed cost of CPO for Indian buyers. The key downside risk is that the B15 absorption pace disappoints and the export recovery stalls simultaneously. In that scenario, the June MPOB print would record a third consecutive stock build, which would test the near-term price support thesis.

Segmental Rating

Segment	Rating
Malaysia	OVERWEIGHT (Maintained)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Hap Seng Plantations	HAPL MK	BUY	2.13	2.47
SD Guthrie	SDG MK	BUY	6.03	6.90

Source: Bloomberg, UOB Kay Hian

CPO Price Assumptions (RM/Tonne)

	CPO Price (RM/tonne)
2021	4,408
2022	5,088
2023	3,810
2024	4,180
2025	4,306
Our Forecast:	
2026F	4,500
CPO Price:	
MPOB @ 9 Mar 26	4,500
BMD 3rd Month Contract	4,538

Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec*	Price 10 Jun 26 (RM)	Target Price (RM)	Upside To TP (%)	Last Year End	PE 2025 (x)	PE 2026F (x)	PE 2027F (x)	Yield 2025F (%)	ROE 2025F (%)	Market Cap. (RM)	Price/ NAV ps (x)
Hap Seng Plantations	HAPL MK	BUY	2.13	2.47	16.0	Dec-25	10.9	8.6	8.5	5.6	5.9	1,703.3	0.8
Genting Plantations	GENP MK	HOLD	5.15	5.44	5.6	Dec-25	12.1	11.3	10.6	4.7	6.9	4,620.4	1.0
IOI Corporation	IOI MK	BUY	4.28	4.9	14.5	Jun-25	17.7	17.5	15.6	2.7	12.7	26,900.7	2.1
KL Kepong	KLK MK	BUY	20.48	24.65	20.4	Sep-26	27.1	14.1	12.5	3.1	5.8	22,807.7	1.6
SD Guthrie	SDG MK	BUY	6.03	6.9	14.4	Dec-25	21.4	19.2	20.9	2.9	12.2	41,701.8	2.3

Source: Bloomberg, UOB Kay Hian

MPOB'S May 26 Statistics

(m tonne)	May 25	Apr 26	May 26	mom % chg	yoy % chg	5M26	Yoy % chg
CPO Production	1.77	1.63	1.52	(7.0)	(14.4)	7.27	7.38
Palm Oil Domestic Use	0.31	0.37	0.34	(10.5)	8.5	1.71	1.80
Palm Oil Exports	1.41	1.29	1.11	(14.5)	(21.4)	5.69	6.50
Oleochemical	0.23	0.30	0.25	(14.5)	9.4	1.09	1.23
Biodiesel	0.03	0.04	0.04	9.3	25.9	0.15	0.13
Palm Oil Imports	0.07	0.08	0.04	(42.2)	(36.5)	0.40	0.30
Palm Oil Stocks	1.99	2.31	2.43	5.1	22.0	1.99	2.43

Source: MPOB, UOB Kay Hian

May 26 CPO Production By Region And State

(m tonne)	May 25	Apr 26	May 26	mom % chg	yoy % chg	5M26	Yoy % chg
Johor	0.27	0.25	0.24	(5.4)	(9.7)	1.12	1.13
Pahang	0.30	0.23	0.22	(8.1)	(28.7)	1.15	1.11
Perak	0.19	0.17	0.15	(10.1)	(19.4)	0.78	0.74
Negeri Sembilan	0.07	0.06	0.05	(17.9)	(30.0)	0.25	0.25
Selangor	0.05	0.05	0.04	(10.8)	(13.3)	0.22	0.21
Terengganu	0.04	0.04	0.04	(6.1)	(6.5)	0.14	0.17
Kelantan	0.04	0.03	0.03	(9.8)	(31.3)	0.13	0.13
Kedah	0.03	0.02	0.02	(7.6)	(32.4)	0.11	0.09
Other States	0.02	0.02	0.02	11.9	(17.8)	0.08	0.08
Pen Malaysia	1.00	0.86	0.79	(8.1)	(20.3)	3.99	3.91
Sabah	0.40	0.38	0.35	(9.4)	(14.3)	1.65	1.76
Sarawak	0.37	0.38	0.38	(2.0)	1.4	1.64	1.71
East Malaysia	0.77	0.77	0.72	(5.7)	(6.8)	3.28	3.47

Source: MPOB, UOB Kay Hian

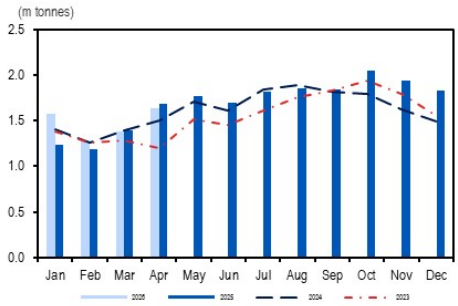
Valuation/Recommendation

- **Maintain OVERWEIGHT.** We remain constructive on the sector, underpinned by structural demand growth from the expansion of regional biofuel mandates ie higher blending mandates in US and the implementation of B50 policy in Indonesia. We maintain our CPO price forecasts at RM4,500/tonne and RM4,400/tonne for 2026/27 respectively.
- **Top picks.** We like SD Guthrie as it is a liquid big-cap play against the bullish CPO price backdrop, and is also supported by the positive narratives of its pivot towards renewable energy and industrial park development. In addition, pure-play Hap Seng Plantations still trades at an inexpensive valuation and offers an attractive dividend yield of 5.5%. On the other hand, we also like Kuala Lumpur Kepong as a laggard pick, with its downstream business expected to record a progressive earnings recovery.

Sector Catalyst/Risk

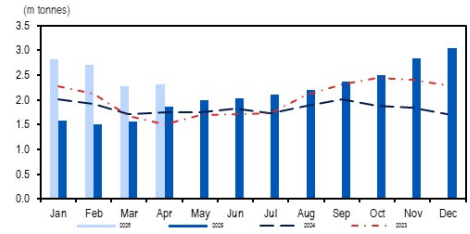
- Malaysia's B15 mandate took effect on 1 June, but the incremental demand uplift may disappoint.
- A sustained decline in the ringgit's strength could support India's import demand for CPO.
- Dry and hot weather alongside the potential for El Niño in 2H26 may threaten FFB yield and industry supply.

Malaysia Palm Oil Production



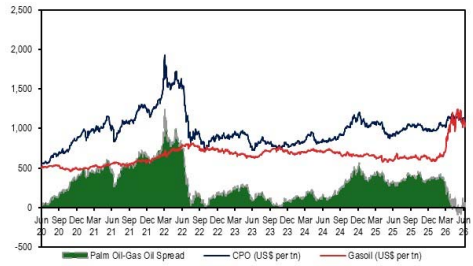
Source: MPOB, UOB Kay Hian

Malaysia Palm Oil Stocks



Source: MPOB, UOB Kay Hian

Palm Oil-Gas Oil Spread



Source: Bloomberg, UOB Kay Hian

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